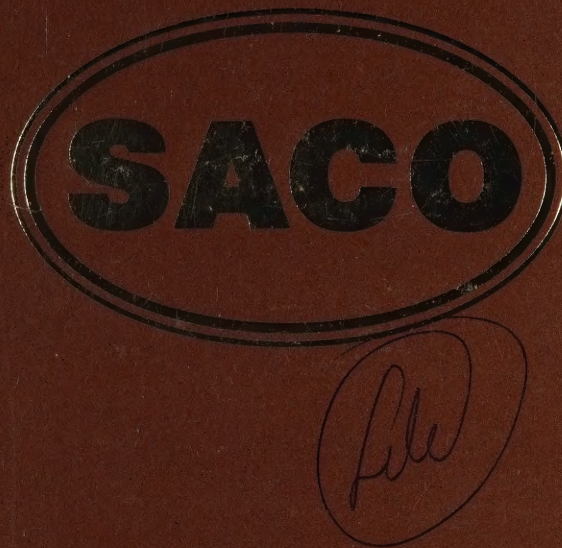



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SACO INDUSTRIES & REALTY LTD
1979 ANNUAL REPORT



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SACO INDUSTRIES & REALTY LTD.

(Incorporated under the laws of the Province of Alberta)

DIRECTORS

Roy Sylyski, Edmonton, Alberta
George G. Moss, Edmonton, Alberta
Ronald Lauder, St. Albert, Alberta
Alec J. Kurylo, Edmonton, Alberta
Bill Kurylo, Edmonton, Alberta
Harry Eaton, Edmonton, Alberta

OFFICERS

Roy Sylyski: President
George G. Moss: Vice President & Secretary
Alec J. Kurylo: Vice President, Real Estate Division
Ronald Lauder: Treasurer

AUDITORS

Sax, Zimmel, Stewart & Co.

SOLICITORS

Wolff, Elgert, Budnitsky & Davies

TRANSFER AGENT

Canada Trust, Edmonton - Calgary

BANKERS

Royal Bank of Canada

OFFICE

2610 - 9925 Jasper Avenue
Edmonton, Alberta T5J 2X4

SUBSIDIARY COMPANIES

Saco Peat Ltd.
5308 - 72A Avenue
Edmonton, Alberta

Plant Office
Alsike, Alberta

Saco Resources Ltd.
2610 - 9925 Jasper Avenue
Edmonton, Alberta T5J 2X4

ANNUAL GENERAL MEETING, JUNE 10, 1980, 7:30 P.M.
CAPILANO MOTOR INN, EDMONTON, ALBERTA

REPORT OF THE DIRECTORS OF SACO INDUSTRIES & REALTY LTD.

It is with pleasure we are able to report to you the continuing progress of your company.

Midway through 1979 the shares of Saco Industries & Realty Ltd. were accepted for trading on the Alberta Stock Exchange (Calgary) under the symbol SID.

With the acquisition of the necessary permits for construction of the peat moss plant, clearing and levelling of the plant site commenced in the fall. This made possible the erection of some buildings and installation of utility lines such as water, sewer, gas and electricity before winter set in. Plant construction continued thereafter. Currently, approximately 80 percent of the construction has been completed with the barge beginning to operate on the bog.

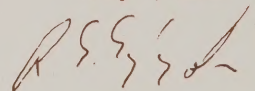
Late in 1979, the company sold the Saskatchewan Mineral Lease Number 4243 and the Great Bear Lake mineral claims Saco Numbers 1 to 4 to SACO RESOURCES LTD. for 750,000 escrowed shares. This resource company is a separate corporation and will be operated independently, but will be controlled by Saco Industries & Realty Ltd.

During the year, we were faced with a dramatic rise in interest rates to an all time high with an accompanying slow down in real estate activity. However, the experience of the Saco Directors, in the Real Estate Division, proved to be very valuable as no new lands were purchased since 1978, but sales were negotiated during 1979 with one sale completed early in 1980. With a small cash investment, Saco realized an exceptional profit on that sale.

Alex Kurylo resigned from the Board of Directors of Saco Industries & Realty Ltd. as he felt that, since he is involved in other real estate ventures, he could be involved in a conflict of interest.

In March 1980, James Gilders joined the Board of Directors of Saco Industries & Realty Ltd. and Saco Resources Ltd. Mr. Gilders is an oilman and a consulting geologist from Calgary, and will give Saco the necessary expertise to venture into the oil and gas business. Previously, Mr. Gilders was the exploration manager for Great Plains Development Co. of Canada; and presently directs a multimillion dollar exploration program from his Calgary office.

R.S. Syluski
President
May 1, 1980



PROFILE REVIEW AND OUTLOOK

As reflected in previous years, the company's main objective is to participate in the growth and progress of Western Canada with particular emphasis on Alberta. It is also the intent of the Board to try and take advantage of the extreme fluctuations that are occurring in specific areas of our economy. This has been very evident over the past year whereby we experienced unprecedented high interest rates which greatly affected business and created a dramatic slow down, for most, on a national level. Even with Alberta's buoyant economy, rates have had a negative affect on some businesses. This gave Saco an opportunity to look at several businesses which were encountering difficulties, but which turned out to be unfavourable to the company.

It is hoped that in 1980 Alberta will be able to establish price guidelines on their oil and gas in accordance with Ottawa, thus setting the stage for additional future developments of insitu and heavy oil deposits. With Edmonton being the prime servicing point for these multi-billion dollar projects, Saco will continue to seek out industrial operations which would provide cash flow and diversification.

Currently, the company is operating in the following areas:

MINING, OIL AND GAS DIVISION

Considering the continued strength in energy related areas, the Board, over the past two years, has been seeking an opportunity to participate in the oil and gas business preferably with no outlay of cash by Saco. To accomplish this, Saco Resources was incorporated as an independent resource company. In turn, Saco Industries & Realty Ltd. sold its uranium mining lease in Uranium City, Saskatchewan and its copper-silver claims in the Great Bear Lake area, N.W.T. to Saco Resources for 750,000 escrow shares. The Board of Saco Industries & Realty Ltd. would also serve as the Board for Saco Resources Ltd. In addition, James Gilders, an oil and gas consultant from Calgary, was appointed to the Boards to head the oil and gas operations.

Currently, a proposal is underway to provide financing for Saco Resources. A major portion of the funds would then be allocated to the Oil and Gas Division for acquisition of leases and exploration on a joint basis with other operators. The balance of funds would be used to carry out further exploration on the company's uranium lease as recommended by the consulting geologist. Since copper and silver prices are stronger, consideration will be given to farm out the Company's N.W.T. claims for further exploration.

HORTICULTURAL DIVISION

Since 1973, when Saco took an interest in peat moss, noticeable changes in the horticultural field have become apparent.

Primarily, with the cost of food rising continuously, more consumers are becoming interested in growing their own food; and it can be demonstrated now that there is good economics in home gardening. This has sustained a very good market for peat moss.

In addition, some of the large nurseries in the United States are switching to container growing. This requires a soil mix for every container; and when a plant, shrub or tree is sold, the container and all are sold. This means that container growing can take place even on areas covered by concrete, provided a soil mix is available, of which peat moss is a major ingredient.

Lastly, larger family growers are expanding and in turn are being taken over by conglomerates. In turn, these corporations, with intentions of expanding further, are concerned about arranging for a larger and more reliable supply of peat moss, for a longer period of time.

In our contact with Southern United States growers it became apparent that they were very concerned about the decreasing availability of good quality peat moss from present suppliers. Laboratory reports compiled by internationally recognized authorities indicate that the quality of our material is excellent. Saco has accomplished this over a period of six years of joint experimental and technical research work done on a pilot plant scale with A. Palynchuk of Edmonton Engineering Ltd.

Being aware that the industry had tremendous potential we also realized that most operators in the industry were plagued with the major problem of dewatering and drying peat moss effectively without degradation of the material. To overcome these problems innovative designs were developed and applied by Edmonton Engineering Ltd. to create a system that would highly upgrade the method of dewatering and drying. These developments have been incorporated into the construction of the main plant which is currently 80 percent complete. Capacity of this plant is rated at 350,000 bales per year, and may be upgraded to 500,000 bales by the addition of certain specific units. It is also anticipated that the cost of the plant is coming within budget at a total cost of \$1.03 million.



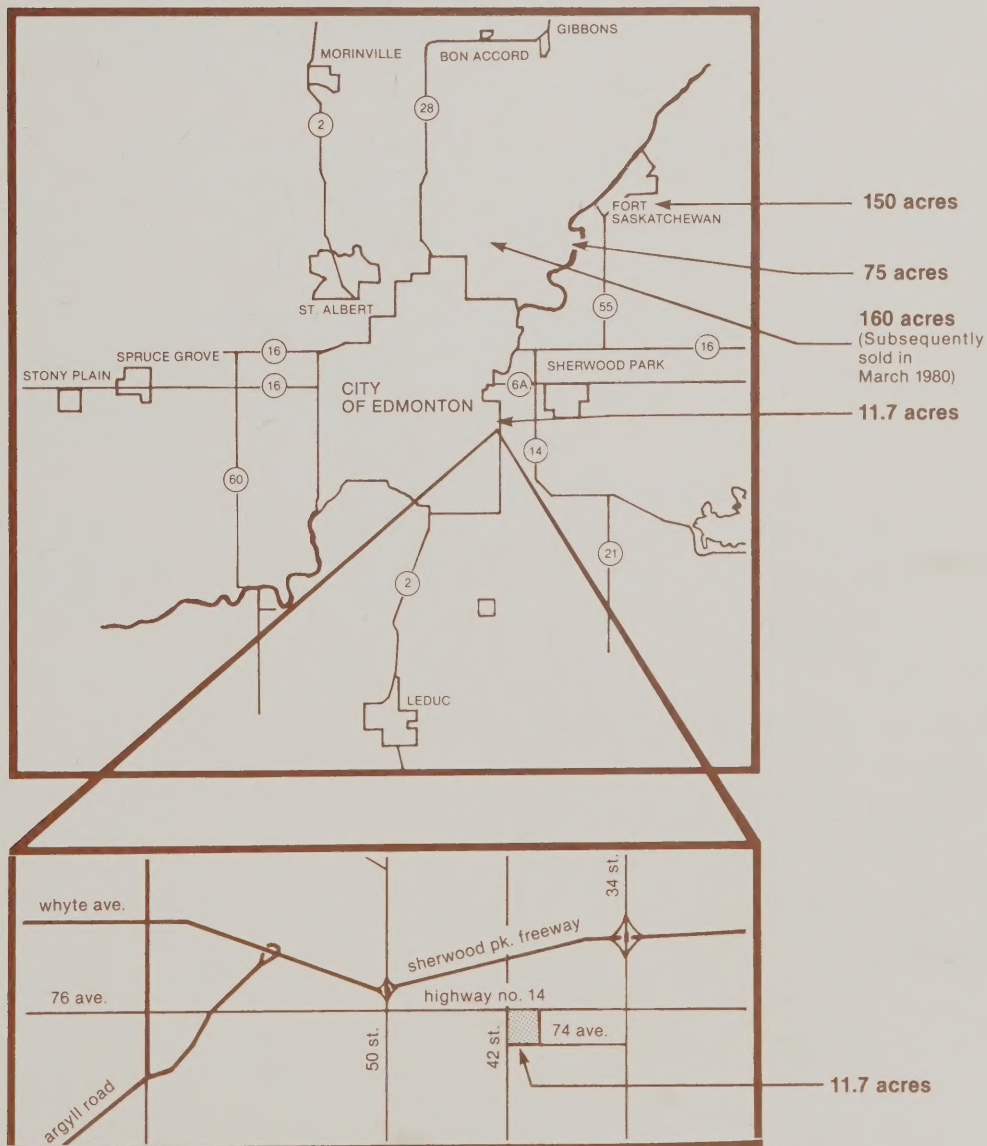
REAL ESTATE DIVISION

With unprecedented high interest rates encountered over the past year, Saco was in a rather enviable position in that all lands were purchased two to three years ago under extremely favourable prices and low interest rates.

During the year, the City of Edmonton came out with a proposal to annex a major portion of lands encompassing the cities of St. Albert, Fort Saskatchewan, Sherwood Park and their immediate surrounding areas. This generated a lot of interest for the Company as all of its land holdings were within the proposed annexation boundaries; which resulted in the sale of one parcel of land in the early part of 1980 which provided an exceptional profit.

Our architect has also prepared a zoning application for a proposed hotel-commercial type of complex, on the company's 11.75 acres of land in the City of Edmonton. Consideration will then be given to selling the lands outright or, if more favourable, entering into a joint development. In the meantime, with a strong cash position from the above mentioned sale, Directors are on the alert for additional investments.

CURRENT LAND HOLDINGS



SACO INDUSTRIES & REALTY LTD.

(Incorporated under the statutes of Alberta)

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1979

(With comparative figures at December 31, 1978)

Statement 1

ASSETS

	1979	1978
CASH	\$ 175,299	\$ 138,923
FUNDS IN TRUST		578,029
DUE FROM MINORITY SHAREHOLDER		250,000
LAND INVENTORY - stated at the lower of cost and net realizable value (Note 1)	3,161,082	2,868,360
PREPAID AND OTHER EXPENSES	9,899	12,183
LONG TERM INVESTMENT (Note 1)	1	
FIXED ASSETS (Note 1)	399,341	
DEFERRED DEVELOPMENT EXPENDITURES (Note 1)	114,783	21,658
TOTAL ASSETS	\$ 3,860,405	\$ 3,869,153

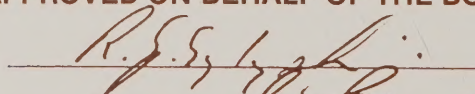
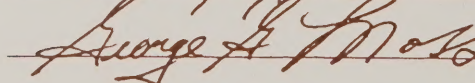
LIABILITIES

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 267,963	\$ 65,810
FUNDS IN TRUST		578,029
MORTGAGES RELATING TO LAND INVENTORY (Note 2)	2,088,707	2,253,333
DUE TO MINORITY SHAREHOLDER (Note 3)	250,000	250,000
MINORITY INTEREST	30	30
	<u>2,606,700</u>	<u>3,147,202</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 4)	1,405,200	862,200
DEFICIT (Statement 2)	(151,495)	(140,249)
	<u>1,253,705</u>	<u>721,951</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 3,860,405	\$ 3,869,153

APPROVED ON BEHALF OF THE BOARD:

 Director
 Director

CONSOLIDATED STATEMENT OF DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1979

Statement 2

(With comparative figures for 1978)

	1979	1978
DEFICIT BEGINNING OF YEAR	\$ 140,249	\$ Nil
NET LOSS FOR THE YEAR (Statement 3)	11,246	140,249
DEFICIT END OF YEAR	<u>\$ 151,495</u>	<u>\$ 140,249</u>

AUDITORS' REPORT

To the Shareholders of
Saco Industries & Realty Ltd.

We have examined the consolidated balance sheet of Saco Industries & Realty Ltd. as at December 31, 1979 and the consolidated statements of loss, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
April 8, 1980

San, Zimmel, Stewart & Co.
CHARTERED ACCOUNTANTS

CONSOLIDATED STATEMENT OF LOSS **FOR THE YEAR ENDED DECEMBER 31, 1979**

Statement 3

(With comparative figures for 1978)

	1979	1978
REVENUE		
Interest	\$ 46,243	\$ Nil
Rental	3,600	
	<u>49,843</u>	<u>Nil</u>
EXPENSES		
General and administrative	61,089	
Development expenditures		125,095
Cost of claims		15,154
	<u>61,089</u>	<u>140,249</u>
NET LOSS FOR THE YEAR	<u>\$ 11,246</u>	<u>\$ 140,249</u>
EARNINGS (LOSS) PER SHARE	<u>\$ (.003)</u>	<u>\$ (.054)</u>

CONSOLIDATED STATEMENT OF **CHANGES IN FINANCIAL POSITION FOR** **THE YEAR ENDED DECEMBER 31, 1979**

Statement 4

(With comparative figures for 1978)

	1979	1978
CASH WAS PROVIDED BY		
Increase in accounts payable and accrued liabilities	\$ 162,153	\$ 62,307
Decrease in due from minority shareholder	250,000	
Issue of common shares	543,000	
Increase in mortgages relating to land inventory		1,728,333
Increase in minority interest		30
Decrease in prepaid and other expenses	2,284	
	<u>957,437</u>	<u>1,790,670</u>
CASH WAS USED FOR		
Operations -		
Net loss for the year	11,246	140,249
Deduct items not requiring an outlay of funds:		
Development expenditures		115,826
Cost of claims		15,154
	<u>11,246</u>	<u>9,269</u>
Increase in land inventory	292,722	2,240,704
Increase in deferred development expenditures	93,125	21,658
Increase in long term investments	1	
Increase in fixed assets	399,341	
Decrease in mortgages relating to land inventory	124,626	
Increase in prepaid and other expenses		11,595
	<u>921,061</u>	<u>2,283,226</u>
INCREASE (DECREASE) IN CASH	<u>\$ 36,376</u>	<u>\$ (492,556)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — DECEMBER 31, 1979

1. Accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of the company and its subsidiary, Saco Peat Ltd.

(b) Long term investment

The investment in a subsidiary company, Saco Resources Ltd. is accounted for by the equity method. The financial statements of the subsidiary have not been consolidated with the parent company's financial statements as control by the parent is temporary.

(c) Land inventory

(1) The inventory of land is recorded at the lower of cost and net realizable value.

(2) The company capitalizes the following costs as part of the land inventory:

(a) interest on long term debt deemed applicable to the company's investment in land.

(b) property taxes on the land.

(d) Fixed assets

The company has capitalized all costs relating to the construction of the peat moss processing facilities presently under construction. The amount capitalized as at December 31, 1979 has not been depreciated.

(e) Deferred development expenditures

The company has deferred certain development expenditures related to the testing of pre-production prototypes and market research for a peat moss process.

The development expenditures have not been amortized as commercial production has not commenced.

(f) Earnings per share

The earnings per common share are based on the average number of shares outstanding during the year.

NOTES

